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Yovich &Co WEALTH MANAGEMENT

Yovich & Co. Market Update

20th March 2022

As at 18th March	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11821.38	7339.33	3309.75	7155.64	32944.19	12843.81	0.9330	0.6808	1.00%
Week Close	12175.85	7571.15	3251.07	7404.73	34754.93	13893.84	0.9315	0.6908	1.00%
Change	3.00%	3.16%	-1.77%	3.48%	5.50%	8.18%	-0.16%	1.47%	0.00%

Markets recovered strongly during the week; the US market leading the way with the Dow up 5.50% and the Nasdaq up 8.18%, as the oil price dropped from its high in the USD$130's back down to below USD$100, and finally closing the week at USD$108. The NZ market was up 3.00% over the week.
Risk appetite has continued to recover, with the NZD and AUD making gains against the USD.
NZ GDP for the quarter to December 2021 has been released, showing 3.2% growth on the previous quarter, and 6.8% growth year on year.
The government announced on Wednesday that NZ will allow international tourists in stages from mid-April, accelerating its previous cautious plans for re-opening. **Tourism Holdings** was the best performer over the week, gaining 16%, with the positive news for the tourism industry. **Auckland Airport** was also a big gainer, up 11%.

The biggest movers of the week ending 18th March				
Up			Down	
Tourism Holdings	15.85%		EROAD	-3.23%
Pushpay	12.50%		Serko	-2.34%
Auckland Airport	11.06%		Infratil	-2.19%

Market Theme – Central Bank Rate Hikes

As discussed in recent updates, inflation is on the rise due to supply chain constraints, and more recently due to the rise in the price of oil. With oil being an integral component all the way along a business's supply chain, this inevitably results in higher prices for general goods and services.

It is the role of a country's central bank to control inflation, and in the case of NZ's Reserve Bank (RBNZ), the mandated target is to keep inflation within 1%-3% over the medium term. Rising inflation is combatted with an increase to the cash rate (in NZ's case the Official Cash Rate – OCR) in order to dampen aggregate demand and investment in the economy. Higher interest rates discourage borrowing and investing, and the resulting lower aggregate demand in the economy takes the demand-side pressure off prices.

Prior to the Russian invasion of Ukraine, the RBNZ had forecast for inflation to increase to 6.6% in the quarter to March, then reduce from there. Since that time, price rises have defied expectations, and recent bank forecasts have inflation rising much more than the RBNZ's forecast. BNZ, ANZ, and ASB are all forecasting inflation to reach 7.4%-7.6% in the June quarter, with BNZ saying that a number in excess of 8% is not out of the question. The market has now priced in a 50% chance of a 50bp (0.50%) hike for the April RBNZ meeting.

During the week, the US Federal Reserve raised its benchmark federal funds rate by 25bps to a range between 0.25% and 0.5%, being the first rate increase since 2018. It also signalled six more increases by the year's end, looking to rein in the highest inflation in the US in four decades. It stated that the unemployment rate has declined substantially (full employment in an economy is a major factor when assessing the level of aggregate demand, being an indicator of whether there is 'slack' in the economy), and pointed to supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures.

The Bank of England also raised its bank rate during the week, by 25bps to 0.75%, being its third rate rise in a row since December. BoE expects inflation in the UK to reach about 8% in the June quarter. It wasn't as hawkish as the Fed however when talking about future rate rises, saying only that some further modest tightening in monetary policy might be needed over the coming months. In contrast to the US, the BoE notes that consumer confidence is already falling, and the squeeze on household incomes is likely to weaken an already subdued outlook for growth.

This is the awkward balance that central banks have to navigate. The difficulty is that while unemployment in NZ and the US is low, the current spike of inflation has been largely due to supply-side shocks, as opposed to growth-driven demand. Raising rates in an attempt to dampen demand risks going too far and resulting in a recession. The good news in NZ is that unemployment is at record lows, and GDP growth is positive, which provides some headroom for the RBNZ to focus on getting inflation under control.

Investment News

Sydney Airport (SYD) – Removal from ASX After Acquisition Completed – Shareholders Paid $8.75 Per Share

In 2021, a consortium of investors, led by New York-based Global Infrastructure Partners and IFM Investors, proposed a takeover of the company, with the final takeover offer of AUD$23.6 billion being accepted by shareholders. The agreement was the biggest all-cash deal in Australian corporate history.
The consortium, by the name of Sydney Aviation Alliance, is a consortium of investment funds invested in a range of infrastructure assets, including other airports in Australia.
The takeover was effected on 9th March 2022, with the shareholders of Sydney Airport being paid AUD$8.75 per share held. As a result, the company has been removed from the official list of the ASX as of 10th March 2022.

Z Energy (ZEL.NZ) – Update from Ampol on Gull Sale – Clearance from Commerce Commission

Ampol have entered into a binding agreement with Allegro Funds Pty Ltd for the sale of its Gull NZ business, which is an important step for the clearance of the Ampol takeover of Z Energy. The sale of Gull is subject to a number of regulatory conditions, and to Ampol successfully completing the acquisition of Z, while the acquisition of Z has been given clearance by the NZ Commerce Commission, subject to the divestment of Gull, and the approval of the Overseas Investment Office as well as support from Z Energy shareholders.
Current Share Price: $3.74, **Consensus Target Price**: $3.66

Pushpay (PPH.NZ) Reconfirms and Narrows FY22 Guidance Range

Pushpay has reconfirmed and narrowed its previous guidance for the year to 31st March 2022, and now expects underlying EBITDAFI to be between US$61.5m and US$63.5m (previously US$60.0m and US$65.0m). The guidance represents an increase in underlying EBITDAFI of between 6% and 10% on pcp.
The share price jumped almost 7% following the update.
Current Share Price: $1.16, **Consensus Target Price**: $1.62

Tourism Holdings (THL.NZ) Sells Roadpass Digital Shareholding for NZ$23.9m

THL has sold its minority shareholding in Roadpass Digital to it joint venture partner, THOR Industries for $23.9m, representing a one-off gain of approx. $1.6m. The company's focus is preparing for the return of international tourism, and the CEO says it is an appropriate time to exit.
Current Share Price: $2.85, **Consensus Target Price**: $3.90